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FISCAL IMPACT STATEMENT

LS 6572

BILL NUMBER: HB 1163

NOTE PREPARED: Dec 27, 2012

BILL AMENDED:

SUBJECT: Cooperative Housing Property Used as Homestead.

FIRST AUTHOR: Rep. Pryor

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: This bill specifies that a person who uses cooperative housing corporation property as the person's principal residence must demonstrate a substantial equity interest in the shares of the cooperative housing corporation to qualify the property as a homestead for property tax purposes.

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary:* For housing cooperatives, this bill would restrict homestead status to qualified tenant-stockholders who occupy an eligible cooperative housing corporation. Co-op property that doesn't meet the guidelines would lose its homestead status beginning with taxes payable in CY 2014. There is no data currently available to identify those properties that would be affected.

Loss of homestead status for any property would mean the loss of the standard and supplemental standard deductions, as well as being subject to the 2% circuit breaker cap for nonhomestead residential property rather than the 1% cap for homesteads. The loss of the deductions would add assessed value to the tax base and shift part of the tax burden to the affected property owners from all other property owners. The higher property tax cap on nonqualified co-ops would potentially reduce revenue losses for taxing units where the property is

located. The additional net assessed value would also reduce tax rates, causing a further reduction in circuit breaker losses for civil taxing units and school corporations.

Background: Under current law, homesteads receive a standard deduction worth 60% of AV up to \$45,000. Homesteads also receive the supplemental standard deduction worth 35% on the first \$600,000 of net AV after the standard deduction plus 25% of the net AV that exceeds \$600,000. In addition, homestead property is subject to a 1% circuit breaker cap.

A homestead is defined as an individual's principal residence that the individual owns, is buying under contract, is entitled to occupy as a tenant-stockholder of a cooperative housing corporation, or one that is owned by certain trusts. This bill would define an *eligible* cooperative housing corporation. A *qualified* tenant-stockholder would qualify as a homesteader only if the property is "*eligible* cooperative housing corporation property".

Under this bill, an eligible cooperative housing corporation is one that:

- (1) Is defined in the Internal Revenue Code as a cooperative housing corporation;
- (2) Owns residential property; and
- (3) Is not a leasing or zero equity cooperative.

The bill also defines a qualified tenant-stockholder as an individual who:

- (1) Qualifies as a tenant-stockholder (under the IRS Code) of an eligible housing co-op;
- (2) Uses the property as the principal residence; and
- (3) Can demonstrate ownership interest in the shares of the co-op that has a value at least equal to the true tax value of the residence.

State Agencies Affected:

Local Agencies Affected: County auditors; Local civil taxing units and school corporations.

Information Sources:

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